Guide for Capitalization and Depreciation of Capital Assets
Prepared by the Office of Statewide Reporting and Accounting Policy

The following information is provided as guidance for the capitalization and depreciation of capital assets to comply with the requirements of GASB Statement 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. This new statement requires reporting of capital assets and depreciation in the government-wide financial statements. This guide includes capital assets categories and descriptions, definitions, capitalization threshold levels, useful lives, and the chosen method of depreciation and is only intended to provide some high level guidance and awareness of the decisions that have been made on these topics. More details on specific procedures and instructions will be provided to the appropriate entities at a later date.

Background

GASB 34 states that capital assets should be reported at historical cost. The cost of a capital asset should include any charges necessary to put the asset into place. Donated capital assets should be reported at their estimated fair value at the date of donation. Capital assets include moveable property (furniture & fixtures, machinery & equipment, automobiles, etc.), land, land improvements, buildings, building improvements, leasehold improvements, infrastructure, historical treasures & works of art, and all other tangible or intangible assets that are used in operations that have initial useful lives beyond a single reporting period. Capital assets that are not being depreciated should be disclosed separately from those that are being depreciated.

I. Quick Facts:

1. Capitalization threshold levels and useful lives for capital assets are as follows:

Capital Asset	Threshold	Useful Life
Movable Property (not including computer software)	$5,000	Varies – see table
Computer Software Purchased or Developed for Internal Use	$1,000,000	3 years
Buildings & Improvements	$100,000	40 Years
Leasehold Improvements	$100,000	< of 20 or 40 years or lease term
Land and Nondepreciable Land Improvements	N/A - capitalize all	No useful life assigned for inexhaustible assets
Depreciable Land Improvements	$100,000	20 Years
Infrastructure	$3,000,000	40 Years (preliminary)
Historical Treasures & Works of Art	N/A	No useful life – inexhaustible

2. The straight-line depreciation method will be used for depreciation of all depreciable capital assets.

3. A full year of depreciation will be taken for the year assets are placed in service or disposed of.

4. No salvage value will be included in the depreciation calculation.

II. Identifying the different categories and classes of capital assets:

1. Movable Property

Movable property consists of those capital assets that are not fixed or stationary in nature. They are those assets that are not land, land improvements, buildings, building improvements, or infrastructure. In general, movable property includes furniture & fixtures, machinery and equipment, and automobiles. For more detailed examples of movable property, see the table of capital assets and useful lives in Section 3 below.

2. Computer Software Developed or Purchased for Internal Use

Computer software developed or purchased for internal use is movable property that requires special consideration due to it's nature and difficulty in accounting for the costs associated with it. Computer software used by an entity may be developed in-house or purchased from outside parties. Whether computer software is purchased from outside parties or developed internally, certain costs incurred would be capitalized. Costs that may be capitalized associated with developed software include those incurred during what is called the "application development stage" . Activities that occur during this stage include configuration, interfacing, coding, installation, conversion of old data, and testing such as parallel processing. The capitalizable costs incurred during this stage include the purchase price of the software or the materials needed to internally develop the software, and cost of services needed after purchase of the software or during internal development. Any payroll costs for employees who are directly associated with and who devote time directly to the software development stage are also costs that would be capitalized. Conversely, any general and administrative costs and overhead costs associated with the software development stage are not costs that are capitalized.

3. Buildings and Building Improvements

Buildings are permanent structures erected above ground, together with fixtures attached to and forming a permanent part of the building, for the purpose of sheltering persons or personal property. The cost of buildings include all labor, materials, and professional services required to construct the building, and any other costs to put the building into it's intended use.
Building improvements are major repairs, renovations, or additions to a building that increase the future service potential of the building and benefit future periods. The buildings and the improvements become one and inseparable. Examples of building improvements include major repairs, renovations, or additions such as addition of a new wing or a new air conditioning system.

4. Leasehold Improvements

Leasehold Improvements are improvements made by the lessee to leased property such as land and buildings. The lessee has the right to use such facilities and improvements during the life of the lease, but the improvements made to the property would revert to the lessor at the expiration of the lease. For this reason, the useful life of the leasehold improvement cannot be longer than the remaining lease term. The useful life of the leasehold improvement would be the lesser of 20 years (if a depreciable land improvement), 40 years (if a building improvement), or the remaining lease term. These improvements to leased property are treated as separate capital assets and are capitalized and depreciated if they are above the threshold for capitalization for the particular type of leased capital asset. Some examples of leasehold improvements would be new buildings or structures built on leased land and attachments or improvements made to existing leased buildings or structures.

5. Land and Land Improvements

Land is an inexhaustible asset that has an unlimited life and therefore is not depreciated.
Land improvements are those betterments, improvements, and site preparations that ready land for its intended use. Like the land itself, these improvements are inexhaustible and therefore not depreciated. Some examples of land improvements would be excavation, filling, grading, demolition of existing buildings, and removal or relocation of other property (telephone or power lines).

6. Depreciable Land Improvements

Depreciable land improvements are defined as improvements made to land that have determinable estimated useful lives and deteriorate with use or passage of time. These improvements are built or installed to enhance or facilitate the use of the land for a particular purpose. Depreciable land improvements may include walking paths and trails, fences and gates, landscaping, sprinkler systems, fountains, and beaches. These are unlike nondepreciable land improvements and land since the useful life of the improvement is determinable.

7. Infrastructure

Infrastructure is defined as long-lived capital assets associated with governmental activities that normally are stationary in nature and can be preserved for a significantly greater number of years than most capital assets. Examples include roads, bridges, tunnels, drainage systems, water and sewer systems, dams, and lighting systems. Although these assets are long-lived, useful lives are assigned to these assets and they are depreciated.

8. Historical Treasures & Works of Art

Historical treasures & works of art are items which are considered inexhaustible and held for public exhibition, educational purposes, or research in enhancement of public service instead of financial gain. Examples are paintings, sculptures, photography, maps, manuscripts, musical instruments, recordings, film, furnishings, artifacts, tools, weapons, and other memorabilia. Generally, collections of historical treasures & works of art will be considered inexhaustible, and would therefore not be depreciated. However, special rules apply for the capitalization of these assets. If a collection was capitalized as of June 30, 1999, the collection must continue to be capitalized, along with all additions to the collection. However, if the collection was not capitalized as of June 30, 1999, do not capitalize the collection.

III. Classes of capital assets and their useful lives are as follows:

Description of Asset and Examples	Useful Life
Movable Property	
Office furniture & fixtures Examples: desks, file cabinets, safes	10
Computers & peripheral equipment Examples: hard drives, printers, monitors, keyboards, disc drives, scanners	5
Computer software developed or purchased for internal use (costs that may be capitalized include those incurred during configuration, interfacing, coding, installation, conversion of old data, and testing such as parallel processing)	3
Office machinery & equipment other than computers: Examples: typewriters, calculators, adding machines, copiers and other duplicating equipment	6
Medical equipment	5
Automobiles	5

High mileage automobiles Examples: state police cars	3
Light general purpose trucks (< 13,000 lbs.)	5
Heavy general purpose trucks (13,000 lbs. or more)	6
Trailers and trailer mounted containers	6
Buses	9
Over-the-road tractor units	4
Airplanes	6
Assets used in research and experimentation	12
Printing and publishing equipment	11
Agricultural assets Examples: agricultural machinery & equipment, grain bins, and fences used for agricultural production	10
Dairy cattle, breeding	7
Horses, breeding or work	10
Horses, not breeding or work	12
Hogs, breeding	3
Sheep & goats, breeding	5
Radio & television broadcasting equipment (excluding towers, see infrastructure)	6
Construction equipment	6
Recreation assets used in the provision of entertainment services for a fee such as bowling alleys, billiards and pool halls, theaters, concert halls, and miniature golf courses.	10
Telephone central office equipment Examples: central office switchboards and related equipment	18
Telephone station equipment Examples: telephones, booths, teletypewriters, and private exchanges	10
Buildings and Improvements	
Buildings and improvements other than those listed below	40

Farm buildings other than single purpose structures Examples: Houses, barns, garages, warehouses	25
Single purpose agricultural or horticultural structures Examples: any building or enclosure used specifically for housing, raising, and feeding a particular type of livestock and it's produce and necessary equipment; greenhouses	15
Service station buildings and related land improvements	20
Depreciable Land Improvements	
Land improvements that are depreciable & other improvements other than buildings Examples: sidewalks, paths and trails, sprinkler systems, fences & gates, landscaping, fountains, and beaches that are not considered infrastructure (see infrastructure below)	20
Infrastructure Examples: highways, roads, bridges, tunnels, sidewalks, curbs, gutters, street signage, street lamps, traffic signals, drainage systems, water and sewer systems, lighting systems, railroad tracks, trestles, canals, waterways, spillways, locks, dams, levees, seawalls, lakes/reservoirs, waterbottoms, beaches, boat ramps, boat docks, piers, wharfs, boardwalks, radio or television towers, airport runway/taxiway	40

*This table is only a list of some of the common and probable assets that are in your possession. If there are any assets not on this list that may be required to be capitalized and depreciated, refer to IRS Publication 946 - Appendix B "Table of Class Lives and Recovery Periods" for further listing of assets.

IV. Method of depreciation:

For simplicity and consistency, the straight-line depreciation method (cost divided by useful life) will be used for depreciation of all depreciable capital assets. In addition, it will be assumed that the capital assets will have no salvage value. A full year of depreciation will be taken in the year assets are placed in service or disposed of. Regardless of the actual date an asset is placed into service, the asset is treated as being placed into service at the beginning of the fiscal year, allowing a full year's depreciation in the year of acquisition. Regardless of the actual date an asset is disposed of, the asset is treated as being disposed of at the end of the fiscal year, allowing a full year's depreciation in the year of disposal.